

AUDUBON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Audubon Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2006 Election)**

Douglas Olsen	President	2007
Tim Andersen	Vice President	2006
Sarah Christensen	Board Member	2008
Doug Olson	Board Member	2008
Carla Gust	Board Member	2006

**Board of Education
(After September 2006 Election)**

Tim Andersen	President	2009
Doug Olson	Vice President	2008
Douglas Olsen	Board Member	2007
Sarah Christensen	Board Member	2008
Mary Jo Krauel	Board Member	2009

School Officials

Ron Dobson	Superintendent	2007
John Roberts	Board Secretary/Treasurer	2007
Natalie Lange	Business Manager	2007
Rick Engel	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Audubon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Audubon Community School District, Audubon, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Audubon Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2008 on our consideration of the Audubon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Audubon Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 11, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Audubon Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,231,877 in fiscal 2006 to \$5,324,254 in fiscal 2007, while General Fund expenditures increased from \$5,233,677 in fiscal 2006 to \$5,452,902 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$558,558 in fiscal 2006 to a balance of \$599,594 in fiscal 2007, an increase of 7.35% from the prior year.
- The increase in General Fund revenues was attributable to increases in local and state source revenues in fiscal 2007. The increase in expenditures is attributable to an increase in the support services function.
- The District's solvency ratio for the year ended June 30, 2007 is 7.2% as compared to 7.4% for the year ended June 30, 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Audubon Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Audubon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Audubon Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Audubon Community School District Annual Financial Report

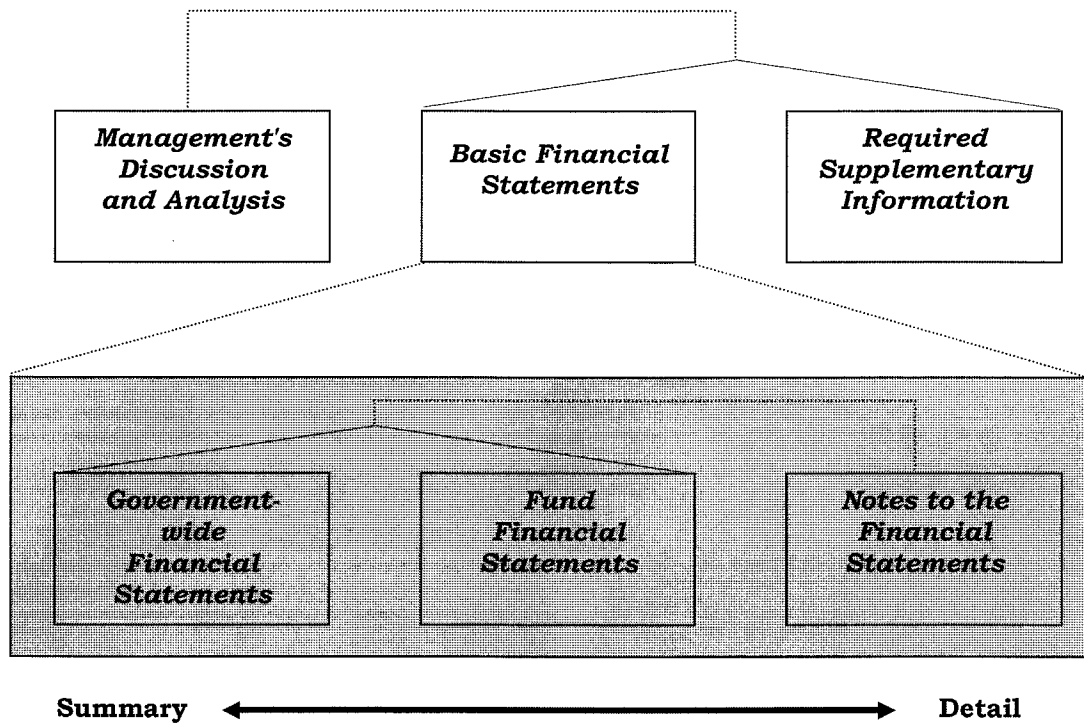


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private Purpose Trust Funds.

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 4,708,072	8,363,238	75,817	72,433	4,783,889	8,435,671	-43.29%
Capital assets	7,480,817	3,594,421	45,543	54,655	7,526,360	3,649,076	106.25%
Total assets	12,188,889	11,957,659	121,360	127,088	12,310,249	12,084,747	1.87%
Long-term obligations	4,859,370	4,859,786	0	0	4,859,370	4,859,786	-0.01%
Other liabilities	2,738,329	2,656,015	3,599	1,819	2,741,928	2,657,834	3.16%
Total liabilities	7,597,699	7,515,801	3,599	1,819	7,601,298	7,517,620	1.11%
Net assets:							
Invested in capital assets, net of related debt	3,043,340	3,363,950	45,543	54,655	3,088,883	3,418,605	-9.64%
Restricted	1,047,103	553,109	0	0	1,047,103	553,109	89.31%
Unrestricted	500,747	524,799	72,218	70,614	572,965	595,413	-3.77%
Total net assets	\$ 4,591,190	4,441,858	117,761	125,269	4,708,951	4,567,127	3.11%

The District's combined net assets increased by 3.11%, or \$141,824 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$493,994 or 89.31% under the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$22,448, or 3.77%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 467,613	498,376	175,940	183,207	643,553	681,583	-5.58%
Operating grants and contributions and restricted interest	658,031	582,990	109,442	108,745	767,473	691,735	10.95%
Capital grants and contributions and restricted interest	0	25,000	0	0	0	25,000	-100.00%
General revenues:							
Property tax	2,068,055	2,039,359	0	0	2,068,055	2,039,359	1.41%
Local option sales and service tax	390,022	301,865	0	0	390,022	301,865	29.20%
Unrestricted state grants	2,510,335	2,427,977	0	0	2,510,335	2,427,977	3.39%
Other	195,280	424,711	2,857	2,014	198,137	426,725	-53.57%
Total revenues	6,289,336	6,300,278	288,239	293,966	6,577,575	6,594,244	-0.25%
Program expenses:							
Governmental activities:							
Instructional	3,653,324	3,626,310	0	0	3,653,324	3,626,310	0.74%
Support services	1,900,021	1,752,827	1,273	0	1,901,294	1,752,827	8.47%
Non-instructional programs	0	0	294,474	282,088	294,474	282,088	4.39%
Other expenditures	586,659	597,756	0	0	586,659	597,756	-1.86%
Total expenses	6,140,004	5,976,893	295,747	282,088	6,435,751	6,258,981	2.82%
Change in net assets	149,332	323,385	(7,508)	11,878	141,824	335,263	-57.70%
Net assets beginning of year	4,441,858	4,118,473	125,269	113,391	4,567,127	4,231,864	7.92%
Net assets end of year	\$ 4,591,190	4,441,858	117,761	125,269	4,708,951	4,567,127	3.11%

In fiscal 2007, property tax and unrestricted state grants account for 72.80% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.01% of the revenue from business type activities.

The District's total revenues were approximately \$6.58 million of which \$6.29 million was for governmental activities and \$0.29 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 0.25% in revenues and a 2.82% increase in expenses. The increase in expenses was related to increases in expenditures in the support services function.

Governmental Activities

Revenues for governmental activities were \$6,289,336 and expenses were \$6,140,004.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change	2007	2006	Change
			2006-07			2006-07
Instruction	\$ 3,653,324	3,626,310	0.74%	2,724,894	2,733,024	-0.30%
Support services	1,900,021	1,752,827	8.40%	1,899,682	1,752,827	8.38%
Other expenses	586,659	597,756	-1.86%	389,784	384,676	1.33%
Totals	<u>\$ 6,140,004</u>	<u>5,976,893</u>	<u>2.73%</u>	<u>5,014,360</u>	<u>4,870,527</u>	<u>2.95%</u>

- The cost financed by users of the District's programs was \$467,613.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$658,031.
- The net cost of governmental activities was financed with \$2,068,055 in property tax, \$390,022 in local option sales and service tax, \$2,510,335 in unrestricted state grants and \$184,276 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$288,239 and expenses were \$295,747. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Audubon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,846,790, below last year's ending fund balances of \$5,580,263. The primary reason for the decrease in combined fund balances is the use of Capital Projects fund balance for the renovation/addition project at the middle school.

Governmental Fund Highlights

- The General Fund's improving financial position from \$558,558 to \$599,594 is the product of many factors:
 - Increase in local and state source revenues led to an increase in overall General Fund revenues.
 - The increase in revenues was more than enough to offset the increase in expenditures thus ensuring the gain in General Fund balance.

-
- The Physical Plant and Equipment Levy Fund balance increased from \$211,598 in fiscal 2006 to \$337,317 in fiscal 2007. This increase is due mostly in part to an extraordinary revenue from fire damage revenue.
 - The Capital Projects Fund balance decreased from \$4,642,340 in fiscal 2006 to \$778,381 in fiscal 2007. The decrease in fund balance is because of the continuing construction projects at the elementary building and the middle school/high school.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$125,269 at June 30, 2006 to \$117,761 at June 30, 2007, representing a decrease of 6.0%. The combination of decreased fund revenues along with increased fund expenditures as compared to fiscal 2006 guaranteed the decrease in fund balance.

BUDGETARY HIGHLIGHTS

The District's revenues were \$47,574 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in state source revenues than originally anticipated.

Initially, total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$7.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$377,447.

The original cost of the District's capital assets was \$15.14 million. Governmental funds account for \$14.91 million with the remainder of \$0.23 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's reported construction in progress at June 30, 2007 was \$4,876,934 as compared to \$858,964 for June 30, 2006. The dramatic increase in construction in progress is attributable to the continuing renovation/addition to the elementary building and the middle school/high school building.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 3,200	3,200	0	0	3,200	3,200	0.00%
Construction in progress	4,876,934	858,964	0	0	4,876,934	858,964	467.77%
Buildings	1,526,119	1,656,488	0	0	1,526,119	1,656,488	-7.87%
Land improvements	392,573	431,849	0	0	392,573	431,849	-9.09%
Machinery and equipment	681,991	643,920	45,543	54,655	727,534	698,575	4.15%
Total	\$ 7,480,817	3,594,421	45,543	54,655	7,526,360	3,649,076	106.25%

Long-Term Debt

At June 30, 2007, the District had \$4,859,370 in other long-term debt outstanding. This represents a decrease of less than 1%. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$4,685,000 at June 30, 2007.

During the year the District entered into two separate bus leases for a total of four new buses. At June 30, 2007, the District still owed \$169,684 which will be paid from the General Fund.

The District had total outstanding compensated absences payable from the General Fund of \$4,686 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 4,685,000	4,855,000	-3.50%
Bus leases	169,684	0	100.00%
Compensated absences	4,686	4,786	-2.09%
Total	\$ 4,859,370	4,859,786	-0.01%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District projects a declining enrollment trend of approximately 19 students per year. We are anticipating the declining enrollment will be offset by the projected increase in our state SILO tax dollars per student.
- During fiscal year 2008, it is anticipated that the renovation/addition at the elementary and middle school will be completed.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Natalie Lange, Business Manager, Audubon Community School District, 800 Third Avenue, Audubon, Iowa, 50025.

BASIC FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,391,577	70,701	2,462,278
Receivables:			
Property tax:			
Delinquent	30,101	0	30,101
Succeeding year	1,929,089	0	1,929,089
Income surtax	144,771	0	144,771
Accounts	45,164	0	45,164
Due from other governments	167,370	0	167,370
Inventories	0	5,116	5,116
Capital assets, net of accumulated depreciation(Note 4)	7,480,817	45,543	7,526,360
TOTAL ASSETS	12,188,889	121,360	12,310,249
LIABILITIES			
Accounts payable	299,788	1,985	301,773
Salaries and benefits payable	487,634	0	487,634
Interest payable	21,818	0	21,818
Deferred revenue:			
Succeeding year property tax	1,929,089	0	1,929,089
Unearned revenue	0	1,614	1,614
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds	175,000	0	175,000
Bus leases	53,799	0	53,799
Compensated absences	4,686	0	4,686
Portion due after one year			
General obligation bonds	4,510,000	0	4,510,000
Bus leases	115,885	0	115,885
TOTAL LIABILITIES	7,597,699	3,599	7,601,298
NET ASSETS			
Invested in capital assets, net of related debt	3,043,340	45,543	3,088,883
Restricted for:			
Beginning teacher mentoring	108	0	108
Additional teacher contract day	477	0	477
Market factor	5,000	0	5,000
Early intervention	37,229	0	37,229
Talented and gifted	174,300	0	174,300
Management levy	62,090	0	62,090
Physical plant and equipment levy	337,317	0	337,317
Capital projects	361,174	0	361,174
Other special revenue purposes	69,408	0	69,408
Unrestricted	500,747	72,218	572,965
TOTAL NET ASSETS	\$ 4,591,190	117,761	4,708,951

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,663,976	191,607	425,398	(2,046,971)	0	(2,046,971)
Special instruction	356,558	13,196	35,758	(307,604)	0	(307,604)
Other instruction	632,790	262,471	0	(370,319)	0	(370,319)
	<u>3,653,324</u>	<u>467,274</u>	<u>461,156</u>	<u>(2,724,894)</u>	<u>0</u>	<u>(2,724,894)</u>
Support services:						
Student services	214,766	0	0	(214,766)	0	(214,766)
Instructional staff services	220,791	0	0	(220,791)	0	(220,791)
Administration services	612,635	0	0	(612,635)	0	(612,635)
Operation and maintenance of plant services	533,026	0	0	(533,026)	0	(533,026)
Transportation services	318,803	339	0	(318,464)	0	(318,464)
	<u>1,900,021</u>	<u>339</u>	<u>0</u>	<u>(1,899,682)</u>	<u>0</u>	<u>(1,899,682)</u>
Other expenditures:						
Interest and fiscal charges	207,734	0	0	(207,734)	0	(207,734)
AEA flowthrough	196,875	0	196,875	0	0	0
Depreciation(unallocated)*	182,050	0	0	(182,050)	0	(182,050)
	<u>586,659</u>	<u>0</u>	<u>196,875</u>	<u>(389,784)</u>	<u>0</u>	<u>(389,784)</u>
Total governmental activities	6,140,004	467,613	658,031	(5,014,360)	0	(5,014,360)
Business-Type activities:						
Non-instructional programs:						
Support services	1,273	0	0	0	(1,273)	(1,273)
Nutrition services	294,474	175,940	109,442	0	(9,092)	(9,092)
Total business-type activities	<u>295,747</u>	<u>175,940</u>	<u>109,442</u>	<u>0</u>	<u>(10,365)</u>	<u>(10,365)</u>
Total	<u>\$ 6,435,751</u>	<u>643,553</u>	<u>767,473</u>	<u>(5,014,360)</u>	<u>(10,365)</u>	<u>(5,024,725)</u>
General Revenues and Transfers:						
Local tax for:						
General purposes				\$ 1,916,017	0	1,916,017
Capital outlay				152,038	0	152,038
Local option sales and service tax				390,022	0	390,022
Unrestricted state grants				2,510,335	0	2,510,335
Unrestricted investment earnings				184,276	2,857	187,133
Other				25,844	0	25,844
Transfers				(14,840)	0	(14,840)
Total general revenues				<u>5,163,692</u>	<u>2,857</u>	<u>5,166,549</u>
Changes in net assets				149,332	(7,508)	141,824
Net assets beginning of year				<u>4,441,858</u>	<u>125,269</u>	<u>4,567,127</u>
Net assets end of year				<u>\$ 4,591,190</u>	<u>117,761</u>	<u>4,708,951</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 1,032,455	334,877	890,930	133,315	2,391,577
Receivables:					
Property tax					
Delinquent	27,263	2,440	0	398	30,101
Succeeding year	1,701,962	152,127	0	75,000	1,929,089
Income surtax	144,771	0	0	0	144,771
Accounts	44,816	0	0	348	45,164
Due from other governments	19,881	0	147,489	0	167,370
TOTAL ASSETS	\$ 2,971,148	489,444	1,038,419	209,061	4,708,072
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 37,187	0	260,038	2,563	299,788
Salaries and benefits payable	487,634	0	0	0	487,634
Deferred revenue:					
Succeeding year property tax	1,701,962	152,127	0	75,000	1,929,089
Income surtax	144,771	0	0	0	144,771
Total liabilities	2,371,554	152,127	260,038	77,563	2,861,282
Fund balances:					
Reserved for:					
Construction	0	0	417,207	0	417,207
Beginning teacher mentoring	108	0	0	0	108
Additional teacher contract day	477	0	0	0	477
Market factor	5,000	0	0	0	5,000
Early intervention	37,229	0	0	0	37,229
Talented and gifted	174,300	0	0	0	174,300
Unreserved:					
Undesignated:	382,480	337,317	361,174	131,498	1,212,469
Total fund balances	599,594	337,317	778,381	131,498	1,846,790
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,971,148	489,444	1,038,419	209,061	4,708,072

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 1,846,790
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	7,480,817
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	144,771
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(21,818)
Long-term liabilities, including compensated absences, general obligation bonds payable and bus leases payable are not due and payable, in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(4,859,370)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 4,591,190</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,890,931	152,038	390,022	25,086	2,458,077
Tuition	186,940	0	0	0	186,940
Other	78,152	264	137,717	274,660	490,793
State sources	2,997,144	116	0	19	2,997,279
Federal sources	171,087	0	0	0	171,087
Total revenues	5,324,254	152,418	527,739	299,765	6,304,176
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,613,509	0	0	0	2,613,509
Special instruction	358,343	0	0	0	358,343
Other instruction	399,049	0	0	244,105	643,154
	3,370,901	0	0	244,105	3,615,006
Support services:					
Student support	211,402	0	0	0	211,402
Instructional staff services	193,497	0	0	0	193,497
Administration services	616,218	0	0	665	616,883
Operation and maintenance of plant services	451,904	0	0	76,424	528,328
Transportation services	412,105	0	0	0	412,105
	1,885,126	0	0	77,089	1,962,215
Other expenditures:					
Facilities acquisitions	0	26,699	4,017,971	0	4,044,670
Long term debt					
Principal	0	0	0	232,368	232,368
Interest	0	0	0	203,727	203,727
AEA flowthrough	196,875	0	0	0	196,875
	196,875	26,699	4,017,971	436,095	4,677,640
Total expenditures	5,452,902	26,699	4,017,971	757,289	10,254,861
Excess(Deficiency) of revenues over(under) expenditures	(128,648)	125,719	(3,490,232)	(457,524)	(3,950,685)
OTHER FINANCING SOURCES(USES):					
Proceeds from leases	232,052	0	0	0	232,052
Transfer in	0	0	0	436,095	436,095
Transfer out	(62,368)	0	(373,727)	(14,840)	(450,935)
TOTAL OTHER FINANCING SOURCE(USES)	169,684	0	(373,727)	421,255	217,212
Net change in fund balances	41,036	125,719	(3,863,959)	(36,269)	(3,733,473)
Fund balance beginning of year	558,558	211,598	4,642,340	167,767	5,580,263
Fund balance end of year	\$ 599,594	337,317	778,381	131,498	1,846,790

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ (3,733,473)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense and capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 4,316,232	
Depreciation expense	(367,623)	
Loss on asset disposal	(62,213)	
	3,886,396	

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments and issues are as follows:

Issued	\$ (232,052)	
Repaid	232,368	
	316	

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it was due.

(4,007)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences		100
		100

Changes in net assets of governmental activities (page 14) \$ 149,332

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 70,701
Inventories	5,116
Capital assets, net of accumulated depreciation (Note 4)	45,543
TOTAL ASSETS	<u>121,360</u>
LIABILITIES	
Accounts payable	1,985
Unearned revenue	1,614
TOTAL LIABILITIES	<u>3,599</u>
NET ASSETS	
Invested in capital assets	45,543
Unrestricted	72,218
TOTAL NET ASSETS	<u>\$ 117,761</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 175,940</u>
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant services:	
Services	<u>1,273</u>
Non-instructional programs:	
Food service operations:	
Salaries	102,080
Benefits	13,382
Supplies	169,188
Depreciation	<u>9,824</u>
Total non-instructional programs	<u>294,474</u>
TOTAL OPERATING EXPENSES	<u>295,747</u>
OPERATING LOSS	<u>(119,807)</u>
NON-OPERATING REVENUES:	
State sources	3,342
Federal sources	106,100
Interest income	<u>2,857</u>
TOTAL NON-OPERATING REVENUES	<u>112,299</u>
Change in net assets	(7,508)
Net assets beginning of year	<u>125,269</u>
Net assets end of year	<u><u>\$ 117,761</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 169,220
Cash received from miscellaneous sources	6,892
Cash payments to employees for services	(115,462)
Cash payments to suppliers for goods or services	(151,064)
Net cash used in operating activities	<u>(90,414)</u>
Cash flows from non-capital financing activities:	
State grants received	3,342
Federal grants received	88,256
Net cash provided by non-capital financing activities	<u>91,598</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(712)</u>
Cash flows from investing activities:	
Interest on investments	<u>2,857</u>
Net increase in cash and cash equivalents	3,329
Cash and cash equivalents at beginning of year	<u>67,372</u>
Cash and cash equivalents at end of year	<u>\$ 70,701</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (119,807)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	17,844
Depreciation	9,824
Increase in inventories	(292)
Decrease in interfund receivables	237
Increase in accounts payable	1,845
Decrease in unearned revenue	(65)
Net cash used in operating activities	<u>\$ (90,414)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 70,701</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$17,844.

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

		<u>Private Purpose</u>
		<u>Trust</u>
		<u>Scholarship</u>
ASSETS		
Cash and pooled investments	\$	194,897
Interest receivable		4,743
TOTAL ASSETS		<u>199,640</u>
LIABILITIES		
Scholarships payable		8,850
TOTAL LIABILITIES		<u>8,850</u>
NET ASSETS		
Reserved for scholarships		172,597
Unreserved		18,193
TOTAL NET ASSETS	\$	<u>190,790</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Revenues:	
Local sources:	
Interest	\$ 10,270
Contributions	3,228
Total additions	<u>13,498</u>
Expenditures	
Scholarships awarded	<u>10,600</u>
Excess of revenues over expenditures	2,898
Other financing sources	
Transfer in	<u>14,840</u>
Change in net assets	17,738
Net assets beginning of year	<u>173,052</u>
Net assets end of year	<u><u>\$ 190,790</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Audubon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Audubon, Iowa, and the predominate agricultural territory in Audubon and Guthrie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Audubon Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Audubon Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Audubon and Guthrie Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which

normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund (PPEL) is used to account for the purchase and improvement of District grounds as well as remodeling, repairing or the construction of new buildings. PPEL Fund money can also be used to pay for lease or purchase of buildings and or equipment the District may use.

The Capital projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net

assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year.

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 400
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services function exceeded the budgeted amount.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit of other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Iowa Schools Joint Investment Trust	<u>\$ 1,273,083</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and are held by the District in the District's name. Certificates are stated at fair value.

At June 30, 2007, the District had investments in Certificates of Deposit maturing over one year as follows:

	<u>Fair Value</u>
Certificates of Deposit	<u>\$ 171,941</u>

(3) Transfers

The detail of the transfer for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 373,727
Debt Service	General	62,368
Private Purpose Trust	Expendable Trust	14,840
Total		<u>\$ 450,935</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,200	0	0	3,200
Construction in progress	858,964	4,017,970	0	4,876,934
Total capital assets not being depreciated	<u>862,164</u>	<u>4,017,970</u>	<u>0</u>	<u>4,880,134</u>
Capital assets being depreciated:				
Buildings	7,312,113	12,405	0	7,324,518
Land improvements	785,517	0	0	785,517
Machinery and equipment	2,213,435	285,857	579,380	1,919,912
Total capital assets being depreciated	<u>10,311,065</u>	<u>298,262</u>	<u>579,380</u>	<u>10,029,947</u>
Less accumulated depreciation for:				
Buildings	5,655,625	142,774	0	5,798,399
Land improvements	353,668	39,276	0	392,944
Machinery and equipment	1,569,515	185,573	517,167	1,237,921
Total accumulated depreciation	<u>7,578,808</u>	<u>367,623</u>	<u>517,167</u>	<u>7,429,264</u>
Total capital assets being depreciated, net	<u>2,732,257</u>	<u>(69,361)</u>	<u>62,213</u>	<u>2,600,683</u>
Governmental activities capital assets, net	<u>\$ 3,594,421</u>	<u>3,948,609</u>	<u>62,213</u>	<u>7,480,817</u>
Business-type activities:				
Machinery and equipment	\$ 227,082	712	545	227,249
Less accumulated depreciation	172,427	9,824	545	181,706
Business-type activities capital assets, net	<u>\$ 54,655</u>	<u>(9,112)</u>	<u>0</u>	<u>45,543</u>

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 51,559
Other	12,136

Support services:

Student	4,563
Instructional staff	36,174
Operation and maintenance of plant	4,753
Transportation	76,388
	<u>185,573</u>

Unallocated depreciation	<u>182,050</u>
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Total governmental activities depreciation expense	<u>\$ 367,623</u>
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Business-type activities:

Food services	<u>\$ 9,824</u>
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(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 4,855,000	0	170,000	4,685,000	175,000
Bus leases	0	232,052	62,368	169,684	53,799
Compensated absences	4,786	4,686	4,786	4,686	4,686
Total	<u>\$ 4,859,786</u>	<u>236,738</u>	<u>237,154</u>	<u>4,859,370</u>	<u>233,485</u>

General Obligation Bonds Payable

Details of the District's June 30, 2007 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond issue dated July 1, 2005		
		Principal	Interest	Total
2008	5.000 %	\$ 175,000	194,828	369,828
2009	5.000	185,000	186,078	371,078
2010	4.600	195,000	176,828	371,828
2011	4.250	200,000	167,858	367,858
2012	4.150	210,000	159,358	369,358
2013	4.125	220,000	150,642	370,642
2014	4.125	230,000	141,568	371,568
2015	4.125	240,000	132,080	372,080
2016	3.700	250,000	122,180	372,180
2017	3.800	260,000	112,930	372,930
2018	3.875	270,000	103,050	373,050
2019	4.000	280,000	92,588	372,588
2020	4.000	295,000	81,388	376,388
2021	4.050	305,000	69,588	374,588
2022	4.100	320,000	57,236	377,236
2023	4.150	335,000	44,116	379,116
2024	4.200	350,000	30,212	380,212
2025	4.250	365,000	15,512	380,512
		<u>\$ 4,685,000</u>	<u>2,038,040</u>	<u>6,723,040</u>

Bus Leases Payable

During the year ended June 30, 2007, the District entered into two separate leases for four buses. Details of the District's June 30, 2007 bus lease indebtedness which will be paid from the General Fund is as follows:

Year Ending June 30,	Bus lease dated October 19, 2006		Bus lease dated January 30, 2007		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2008	\$ 40,587	6,464	\$ 13,212	2,104	\$ 53,799	8,568	62,367
2009	42,636	4,416	13,879	1,438	56,515	5,854	62,369
2010	44,790	2,261	14,580	736	59,370	2,997	62,367
Total	\$ 128,013	13,141	\$ 41,671	4,278	\$ 169,684	17,419	187,103

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$196,096, \$190,448, and \$190,103 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, life and long-term disability. District contributions to ISEBA for the year ended June 30, 2007 were \$57,429.

Audubon Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$196,875 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed the certified budget amounts. During the year ended June 30, 2007 disbursements in the support services function exceeded the amount budgeted.

(10) Construction Commitment

The District has entered into several contracts for additions and renovations at the elementary school and the middle school/high school. As of June 30, 2007, costs of \$4,876,934 had been incurred against the contracts. Remaining costs will be paid as work on the project progresses. When the project is completed, the costs will be added to the District's fixed asset listing.

(11) Contingencies

As of June 30, 2007, the District is involved in a lawsuit against the District that arose during the normal course of operations. The District has insurance to pay for damages that might arise from a settlement once the case has been settled. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

AUDUBON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary		Budgeted Amounts		Final to
	Fund Types	Fund Type	Total			Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 3,135,810	178,797	3,314,607	3,238,299	3,238,299	76,308
State sources	2,997,279	3,342	3,000,621	3,122,690	3,122,690	(122,069)
Federal sources	171,087	106,100	277,187	279,000	279,000	(1,813)
Total revenues:	6,304,176	288,239	6,592,415	6,639,989	6,639,989	(47,574)
Expenditures:						
Instruction	3,615,006	0	3,615,006	4,391,490	4,391,490	776,484
Support services	1,962,215	1,273	1,963,488	1,906,000	1,906,000	(57,488)
Non-instructional programs	0	294,474	294,474	431,265	431,265	136,791
Other expenditures	4,677,640	0	4,677,640	5,891,246	5,891,246	1,213,606
Total expenditures:	10,254,861	295,747	10,550,608	12,620,001	12,620,001	2,069,393
Excess(deficiency) of revenues over(under) expenditures	(3,950,685)	(7,508)	(3,958,193)	(5,980,012)	(5,980,012)	2,021,819
Other financing sources, net	217,212	0	217,212	0	0	217,212
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(3,733,473)	(7,508)	(3,740,981)	(5,980,012)	(5,980,012)	2,239,031
Balance beginning of year	5,580,263	125,269	5,705,532	6,170,469	6,170,469	(464,937)
Balance end of year	\$ 1,846,790	117,761	1,964,551	190,457	190,457	1,774,094

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AUDUBON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the support services function exceeded the budgeted amount.

OTHER SUPPLEMENTARY INFORMATION

AUDUBON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Special Revenue Funds		
	Manage- ment Levy	Student Activity	Total Special Revenue Funds
Assets			
Cash and pooled investments	\$ 61,692	71,623	133,315
Receivables:			
Property tax:			
Current year delinquent	398	0	398
Succeeding year	75,000	0	75,000
Accounts	0	348	348
Total assets	\$ 137,090	71,971	209,061
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 0	2,563	2,563
Deferred revenue:			
Succeeding year property tax	75,000	0	75,000
Total liabilities	75,000	2,563	77,563
Unreserved fund balances	62,090	69,408	131,498
Total liabilities and fund balances	\$ 137,090	71,971	209,061

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AUDUBON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 25,086	0	0	0	0	25,086
Other	10,851	263,809	0	0	0	274,660
State sources	19	0	0	0	0	19
TOTAL REVENUES	35,956	263,809	0	299,765	0	299,765
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	244,105	0	0	0	244,105
Support services:						
Administration services	665	0	0	0	0	665
Operation and maintenance of plant services	76,424	0	0	0	0	76,424
Long term debt:						
Principal	0	0	0	0	232,368	232,368
Interest and fiscal charges	0	0	0	0	203,727	203,727
TOTAL EXPENDITURES	77,089	244,105	0	321,194	436,095	757,289
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(41,133)	19,704	0	(21,429)	(436,095)	(457,524)
OTHER FINANCING SOURCES(USES):						
Transfer in	0	0	0	0	436,095	436,095
Transfer out	0	0	(14,840)	(14,840)	0	(14,840)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	(14,840)	(14,840)	436,095	421,255
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	(41,133)	19,704	(14,840)	(36,269)	0	(36,269)
FUND BALANCE BEGINNING OF YEAR	103,223	49,704	14,840	167,767	0	167,767
FUND BALANCE END OF YEAR	\$ 62,090	69,408	0	131,498	0	131,498

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AUDUBON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 71	1,338	1,329	80
Speech and Drama	5,945	1,706	2,705	4,946
Journalism	5	104	0	109
Vocal Music	246	0	246	0
Band	136	3,236	2,810	562
Athletics	0	77,862	70,609	7,253
Boys Basketball	0	854	492	362
Football	0	1,243	443	800
Baseball	(30)	245	643	(428)
Boys Track	0	63	0	63
Boys Tennis	0	600	435	165
Wrestling	0	1,352	868	484
Girls Basketball	0	2,022	322	1,700
Volleyball	0	841	34	807
Softball	(46)	2,060	1,681	333
Girls Track	9	651	498	162
Girls Tennis	(1,822)	8,072	3,183	3,067
Industrial Tech	30	5,555	4,945	640
Vo Ag Resale	262	55	0	317
Greenhouse	221	2,727	2,948	0
Box Tops	1,658	630	1,358	930
High School	2,170	15,224	16,139	1,255
Elementary	508	1,675	1,523	660
Middle School	1,073	8,510	7,382	2,201
MS Special Ed	155	144	299	0
HS Special Ed	150	168	318	0
Middle School Music	221	267	316	172
Elementary Music	26	149	142	33
Annual	7,357	11,795	13,040	6,112
Concessions	166	19,246	17,949	1,463
Show and Jazz Choir	3,886	24,191	27,120	957
Home Ec	833	1,189	1,032	990
Class of 2007	2,784	820	2,241	1,363
Class of 2008	0	15,351	13,028	2,323
Class of 2009	0	250	0	250
Class of 2010	0	174	50	124
AFS Club	297	100	20	377
Art Club	286	110	107	289
FHA	532	0	0	532
FFA	20,005	27,293	24,422	22,876
National Honor Society	842	794	763	873
Peer Helpers	13	0	0	13
Pep Club	970	5,315	5,238	1,047
Spanish Club	0	125	0	125
Drill Team	(933)	5,023	3,108	982
Student Senate	793	14,418	14,201	1,010
JH Student Senate	885	262	118	1,029
Total	\$ 49,704	263,809	244,105	69,408

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AUDUBON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	2,458,077	2,332,913	2,284,320	1,966,025
Tuition		186,940	159,658	167,763	177,860
Other		490,793	647,225	349,229	319,657
State sources		2,997,279	2,839,688	2,913,855	2,662,840
Federal sources		171,087	196,279	244,165	176,032
Total	\$	6,304,176	6,175,763	5,959,332	5,302,414
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	2,613,509	2,499,319	2,246,222	2,274,590
Special instruction		358,343	407,126	344,316	530,756
Other instruction		643,154	756,460	704,122	591,971
Support services:					
Student services		211,402	186,747	186,202	133,657
Instructional staff services		193,497	203,637	226,682	208,977
Administration services		616,883	659,114	651,970	569,298
Operation and maintenance of plant services		528,328	464,780	492,329	496,297
Transportation services		412,105	164,608	193,742	220,793
Central support services		0	0	2,237	1,490
Non-instructional programs		0	0	0	3,923
Other expenditures:					
Facilities acquisitions		4,044,670	1,061,501	347,370	134,213
AEA flow-through		196,875	188,080	188,181	191,517
Long term debt					
Principal		232,368	125,000	0	0
Interest		203,727	190,794	0	0
Total	\$	10,254,861	6,907,166	5,583,373	5,357,482

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Audubon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Audubon Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 11, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Audubon Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Audubon Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Audubon Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Audubon Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Audubon Community School District's financial statements that is more than inconsequential will not be prevented or detected by Audubon Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Audubon Community School District's internal control.

Members American Institute & Iowa Society of Certified Public Accountants

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Audubon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Audubon Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Audubon Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Audubon Community School District and other parties to whom Audubon Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Audubon Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 11, 2008

AUDUBON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-07 Student Activity Funds - During our audit, we noted that Target and Box Top donations were being receipted into the Student Activity Fund.

Recommendation - Target and Box Top donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General fund for use in all instructional supplies/services.

Response - Target and Box Top donations will be receipted into the General Fund in the future.

Conclusion - Response accepted.

I-C-07 Scholarship Awards - We noted that when scholarships were awarded to the student, the check was being written directly to the student.

Recommendation - The District should write scholarship checks to the trade school/university the student is attending once that student has supplied adequate documentation to the District that the student is attending a trade school/university.

Response - We will write scholarship checks to the trade school/university the student is attending.

Conclusion - Response accepted.

I-D-07 Receivables/Payables - We noted during our audit instances of receivables/payables being posted to the District's accounting system twice or being carried over from the previous year.

Recommendation - The District should review balance sheet accounts when posting receivables/payables and check for completeness and accuracy to prevent double posting and carryovers from the previous year.

Response - We will do a better job of reviewing balance sheet accounts for accuracy to prevent double posting. We will do a better job of clearing out prior year receivables and payables.

Conclusion - Response accepted.

AUDUBON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007 exceeded the amount budgeted in the support services program area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will provide the minutes within the time period required, however, we are unable to control the publishing dates. We will keep copies of the e-mail when the minutes are sent to the publisher as proof that the minutes were supplied within the two week time period.

Conclusion - Response accepted.

- II-G-07 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.

- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-07 Deficit Balances - We noted during our audit that one student activity account had a deficit balance of \$428 at June 30, 2007.

Recommendation - The District should continue to investigate alternatives to eliminate deficits in order to return these accounts to a sound financial condition.

Response - We will watch these accounts more closely in the future.

Conclusion - Response accepted.

II-K-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The bank has been contacted and we are now receiving images of both the front and back of each cancelled check.

Conclusion - Response accepted.